Analysis of methods to increase the investment attractiveness of transnational corporations

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Análisis de métodos para aumentar el atractivo de inversión de las empresas transnacionales

Abstract

Modern studies of investment attraction processes are of high importance. As a rule, the movement of financial flows at the international level is determined by the investment attractiveness of business. A special role in attraction and placement of investments is given to transnational corporations, which have the greatest influence on the movement of international financial resources. The aim of the research is a detailed analysis and evaluation of methods devoted to increasing investment attractiveness of transnational corporations. The fundamental analysis principles for companies in connection with the assessment of their investment attractiveness are considered. The fundamental static and dynamic indicators are analysed with their comparing. The paper examines the peculiarities of work of institutional and private investors with the largest multinational corporations. The paper assesses the areas for investment as a factor of investment attractiveness. The features of industry and macroeconomic analysis as modern methods determining the investment attractiveness of corporations are investigated. The assessment of time ranges is given, for which the use of methods to increase investment attractiveness is the most effective. The fundamental data analysis has shown a steady decline in the correlation between its indicators and the investment attractiveness of the fifty largest corporations in the world. It is concluded that the repurchase of securities, industry analysis and diversification of corporate activities can be considered as the most effective methods to increase the long term investment attractiveness of corporations.

Keywords: investment, investment attractiveness, multinational corporations, company value, stock market, capitalization, valuation methods, fundamental analysis, dividends, yield, business valuation, securities buyback, international markets, industry specialization.

Resumen

Los estudios modernos de los procesos de atracción de inversiones son de gran importancia. Como regla general, el movimiento de los flujos financieros a nivel internacional está determinado por el atractivo de inversión de las empresas. Se otorga un papel especial en la atracción y colocación de inversiones a las empresas transnacionales, que tienen la mayor influencia en el movimiento de recursos financieros internacionales. El objetivo de la investigación es un análisis y una evaluación detallados de los métodos dedicados a aumentar el atractivo de inversión de las empresas transnacionales. Se consideran los principios de análisis fundamentales para las empresas en relación con la evaluación de su atractivo de inversión. Los indicadores fundamentales estáticos y dinámicos se analizan con su comparación. El artículo examina las peculiaridades del trabajo de los inversores institucionales y privados con las mayores corporaciones multinacionales. El trabajo evalúa las áreas de inversión como factor de atractivo para la inversión. Se investigan las características de la industria y el análisis macroeconómico como métodos modernos que determinan el atractivo de inversión de las empresas. Se da la evaluación de rangos de tiempo, para lo cual el uso de métodos para aumentar el atractivo de la inversión es el más efectivo. El análisis de datos fundamentales ha mostrado una disminución constante en la correlación entre sus indicadores y el atractivo de inversión de las cincuenta corporaciones más grandes del mundo. Se concluye que la recompra de valores, el análisis de la industria y la diversificación de las actividades corporativas pueden considerarse los métodos más efectivos para aumentar el atractivo de inversión a largo plazo de las corporaciones.

Palabras clave: inversión, atractivo de inversión, corporaciones multinacionales, valor de la empresa, mercado de valores, capitalización, métodos de valoración, análisis fundamental, dividendos, rendimiento, valoración de empresas, recompra de valores, mercados internacionales, especialización industrial.
Introduction

Trends in the development of the modern world economy are becoming more and more closely related to the specifics of doing business by major multinational corporations. As to scientific terms of economic science, transnational corporations include large international companies that conduct a significant amount of their business activities in foreign countries. The three largest world corporations traditionally include Apple, Microsoft and Amazon, with the majority of multinationals located in the United States. The investment attractiveness of companies provides them with high income diversification, cheap capital raising sources and consistently high capitalization growth (Shumik, Arnaut & Smitskikh, 2019). Thus, increasing the investment attractiveness of business is considered one of the most important tasks in the development of international corporations (Likhacheva & Usin, 2020).

The concept of investment attractiveness can be considered as a comprehensive category that allows for the assessment of company performance (Jano, Gabdullлина & Fayrushina, 2019). However, the approaches to such evaluation may change depending on the new criteria used by modern investors. As a result, this assessment may not coincide with the opinion of retail or institutional investors (Dzokaeva, 2019). A number of scholars use the classical approach to assessing investment attractiveness as the basic one (Osipov & Astakhova, 2018; Ignatenko, 2017; Romanova, 2019). Nevertheless, the rapid capitalization growth of companies with no real assets and profits refutes the logic of such an idea as the only correct one.

The use of fundamental analysis in assessing the investment attractiveness of international corporations makes sense and has been considered previously as a quite successful research method (Zavodovskaya & Protas, 2020; Guseva & Burkanov, 2017). At the same time, in modern conditions it has become increasingly clear that a number of fundamental indicators will reflect the real picture of the business with a significant delay (Nedoluzhko, 2018). The most illustrative example here is Intel Corporation characterized by good fundamental data, but low investment attractiveness due to problems with the assessment of potential and future development prospects.
Thus, this study should consider the most relevant trends and methods to increase capitalization as one of the main criteria of investment attractiveness at the international level.

**Materials and methods of research**

The purpose of this study is to consider and further analyse the methods focused on increasing the investment attractiveness of multinational corporations. In order to achieve this goal, it is necessary to identify the factors influencing the investment attractiveness, as well as the disadvantages and advantages of the currently existing methods to ensure a stable growth in the capitalization of companies.

It is necessary to point out the fundamental analysis as the basic research method, allowing the business advantages and disadvantages to consider within the context of a wide range of financial and economic indicators. The list of such indicators can be really diverse, and both relative and absolute indicators can be used. An example of Amazon's fundamental analysis indicators is presented in table 1.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
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<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>61,50</td>
<td>EPS (ttm)</td>
<td>52,55</td>
<td>Insider Own</td>
<td>10,20%</td>
</tr>
<tr>
<td>Forward P/E</td>
<td>44,83</td>
<td>EPS next Y</td>
<td>72,09</td>
<td>Insider Trans</td>
<td>-3,84%</td>
</tr>
<tr>
<td>PEG</td>
<td>1,60</td>
<td>EPS next Q</td>
<td>12,16</td>
<td>Inst Own</td>
<td>59,00%</td>
</tr>
<tr>
<td>P/S</td>
<td>3,81</td>
<td>EPS this Y</td>
<td>81,90%</td>
<td>Inst Trans</td>
<td>0,11%</td>
</tr>
<tr>
<td>P/B</td>
<td>15,76</td>
<td>EPS next Y</td>
<td>29,29%</td>
<td>ROA</td>
<td>9,10%</td>
</tr>
<tr>
<td>P/C</td>
<td>21,82</td>
<td>EPS next 5Y</td>
<td>38,40%</td>
<td>ROE</td>
<td>30,50%</td>
</tr>
</tbody>
</table>
In this case, all classical indicators of corporate profitability show rather high values. Nevertheless, modern research methods more and more often indicate the insufficient role of profitability when choosing a company as an object for investment (Tsirekidze, 2019). If the P/E indicator was previously considered the most informative investment indicator, nowadays it is increasingly criticized by analysts (Nikiforova, 2019). Indeed, the forward indicator indicates a 44-year return on investment, which could speak to the pointlessness of financial investments in the corporation's business. However, almost all fundamental analysis indicators are unable to provide an objective assessment of the company's future development rates (Lebedeva, 2018). Researchers can be guided only by the PEG indicator data, indicating the high growth rate of Amazon Corporation; they can be considered as a rough benchmark of investment attractiveness. In this case, any indicator of fundamental analysis is limited to the medium-term planning horizon.

Technical analysis can be regarded as an additional method influencing decisions on investments in a particular corporation. The use of technical analysis as a research method is based primarily on graphical analysis, assessing the stock price dynamics and is more short-term in its nature. Figure 1 shows a graph describing the change in the value of Amazon Corporation shares.
The trend indicators of technical analysis, which in simplified form can be represented as a straight line, indicate the continued growth of capitalization and investment attractiveness of the corporation. The accuracy of technical analysis methods has been repeatedly criticized. At the same time, most scientists agree that technical analysis tools should be used exclusively in conjunction with other methods of analysis (Bikeeva & Ivanova, 2015; Petruk & Vorozhbit, 2017).

The use of statistical data on the activities of multinational corporations is based on the analysis of indicators from open information sources. The study was conducted on the basis of 50 largest multinational companies (Koren, Vodopyanova & Pustovarov, 2019). At the same time, a comparative analysis of dynamic series over five years is used as the main method of financial data processing. In addition, it is necessary to use the expert evaluations method (Bubnovskaya, Vasilyenkov, Titova & Pekhotsky, 2018) to check the appropriateness of the use of individual indicators in assessing their impact on the investment attractiveness.
It should be noted that industry analysis is becoming increasingly important and should be considered as one of the reliable methods for assessing investment attractiveness (Miroshnikova, Popova & Lazarev, 2016). For example, the problem of a high shortage of semiconductors in the global market leads to an automatic increase in revenues, profits and profitability of companies engaged in this area of activity. For example, Lam Research and Applied Materials corporations engaged in the production of equipment for the creation of semiconductors provide themselves with guaranteed growth of revenues and profits in a medium term.

When assessing investment attractiveness, it is necessary to take into account macroeconomic factors. The development of the inflationary scenario observed at the international level will lead to the growth of investments in the raw production industries with a simultaneous outflow of capital from the largest technological corporations. It should be noted that the simultaneous use of industry and macroeconomic analysis can be effectively used by corporations planning to develop new types of activity for them. For example, the high prospects of cloud storage and big data technologies have led to an influx of large investments from the largest technology corporations.

Thus, the diversification of activities based on the development of promising markets can be considered as the most effective method of increasing investment attractiveness in the long term (Safiullin & Abdullina, 2019). Currently, multinational corporations consider the diversification of business activities as a tool to ensure both security and stability of the financial flows growth.

An example of this approach can be seen in the areas of entrepreneurial activity of Amazon Corporation. Initially, the company was connected exclusively with Internet sales to end consumers. At the beginning of 2021, Amazon Web Services, a subsidiary of Amazon, reached 32 per cents of the cloud market. This is more than its closest competitors Microsoft Azure (19%) and Google Cloud Platform (7%). Meanwhile, the Amazon AWS segment already generates 12 per cents of the company's revenue. The company is rapidly expanding into the pharmaceutical market. In November 2020, the company launched Amazon Pharmacy, an online pharmacy selling prescription drugs.
with home delivery, as the global prescription drug market could grow from the current $900 billion to $1.3 trillion by 2025.

Results

The results of the study confirm the hypothesis that there is no universal approach to the choice of effective methods to improve the attractiveness of investment. A comparative analysis of methods that depend on environmental factors and that are related exclusively to the activities of corporations themselves should be conducted separately.

The favourable macroeconomic environment and the industry analysis based on it allow to direct financing to the most marginal activities as a priority (Malkova & Grushin, 2020). In this case, managerial decisions of corporate management will not have a significant impact on investment attractiveness. Nevertheless, there are many examples when companies of the same industry showed opposite results. For example, Intel Corporation failed to use the strategic advantages of the industry associated with the growth in demand for semiconductors, while AMD Corporation or Taiwan Semiconductor Manufacturing Company have managed to increase their sales and profits many times over.

In the study, we were able to draw conclusions that one of the main features of multinational corporations is the large amount of profits and free cash flow generated, because even during the pandemic, the vast majority of major multinational companies had a positive financial result. In accordance with the conducted research it was revealed that the directions of profit utilization will significantly influence the level of investment attractiveness of the corporations.

The profit received can be directed to the repurchase of own shares, dividends, or acquisition of other types of business, including smaller companies (Ivanov, Sakharova & Khrustalev, 2006). Evidence from the past 5 years shows a steady increase in attention to corporate buyback programs.
Discussion

Classical approaches to determine investment attractiveness through the value and dynamics of net income are now increasingly criticized. Development of new lines of business and entering new markets become determining factors. Macroeconomic and industry analysis allows timely finding the most promising areas of activity, as well as giving forecasts on the dynamics of their development.

Besides, the management of the majority of corporations almost always tries to use traditional methods to increase their investment attractiveness. Thus, corporations at the stage of their maturity use dividends as a tool to increase the overall capitalization. However, these methods are gradually losing their significance. From the point of view of modern fundamental analysis, high dividend yield became a reflection of low prospects for business development.

Conclusion

Consideration of methods to increase investment attractiveness of transnational corporations’ business has a high practical value. The use of competent approaches to solving the problem of investment sourcing can significantly increase the capitalization and margins of a business. The methods of fundamental, technical, macroeconomic, and industry analyses have been considered in the research. The necessity of using the whole totality of the considered methods in solving the problem of searching the most effective ways of business development of international corporations has been revealed.

The activity of companies' management continues to have a decisive role in choosing the parameters of dividend policy and programs of securities buyback from the market. Significant amount of financial resources accumulated in the balances of corporations together with low cost of new borrowings allows considering securities buyback programs as one of the universal methods to increase investment attractiveness. The widespread popularity of using buyback programs while investing in the development of
promising business areas can be seen as a modern standard providing an inflow of investment and growth of capitalization.

Bibliographic References


